Service Date: April 4, 1978

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER
DEPARTMENT OF PUBLIC SERVICE REGULATION
MONTANA PUBLIC SERVICE COMMISSION

In the Matter of the Application	)	
of PACIFIC POWER & LIGHT COMPANY,	)	DOCKET NO. 6517
for authority to establish	)	
increased rates for electric	)	ORDER NO. 4401a
service.	)	

APPEARANCES

Representing the Applicant, Pacific Power & Light Company:

C. Eugene Phillips, Esq., Murphy, Robinson, Heckathorn Phillips, One Main Building, Kalispell, Montana 59901

Leonard Girard, Esq. and George M. Galloway, Esq., Rives, Bonyhadi & Smith, Public Service Building, Portland, Oregon 97204

Representing the Protestant, Montana Consumer Counsel:

Geoffrey L. Brazier, Esq. and John C. Doubek, Esq., 34 West Sixth Avenue, Helena, Montana 59601

Representing the Montana Public Service Commission Staff:

Dennis Lopach, Esq.
Frank Buckley, Utility Administrator
Margie Karr, Legal Intern
Dan Elliott, C.P.A.
Judy Curtis, Economist

Before:
Chairman Gordon Bollinger, Presiding Officer
Commissioner P. J. Gilfeather
Commissioner Thomas J. Schneider
Commissioner James R. Shea
Commissioner George Turman

FINDINGS OF FACT

PART A

GENERAL

1. Pacific Power & Light Company (Applicant, Pacific, or Company) is a public utility furnishing electric service to consumers in the State of Montana.

2. This Commission has jurisdiction over the rates and charges for, and the conditions under which utility service is rendered in Montana.

3. Applicant's petition, filed June 17, 1977, requests this Commission's approval of rates for electric utility service which are designed to produce an increase in annual gross operating revenues of $2,463,000, based on an adjusted historic test year ending December 31, 1976.

4. The Montana Consumer Counsel (MCC) has participated in this docket on behalf of utility customers since the inception of these proceedings.

5. On December 15, 1977, applicant filed a motion for a temporary rate increase.

6. On December 16, 1977, the Commission issued notice of a proposed hearing on the application for permanent rate relief and the motion for a temporary rate increase.

7. No objection has been made to the adequacy or form of the December 16, 1977 notice, or to the manner and times of its issuance and publication.

8. On January 10, 11 and 12, 1978, pursuant to the Commission's notice, hearings to receive evidence and allow cross-examination were conducted in Kalispell, Montana.

9. On January 11, 1978, at 7:00 p.m. pursuant to the Commission=s notice, a public hearing was held, at which one public witness appeared.

10. On February 17, 1978, Applicant's motion for a temporary rate increase was granted.

11. Opening briefs were mailed by February 14, 1978 and reply briefs were mailed by February 23, 1978.

12. Applicant proposes the calendar year 1976, adjusted to reflect known changes, and normalized for non-recurring conditions, be used as the test period in this docket.

13. The 1976 test year is found by the Commission to be a reasonable period within which to measure Applicant's utility revenues, expenses and returns for the purpose of determining a fair and reasonable level of rates for electric service.

PART B

CAPITAL STRUCTURE AND ASSOCIATED COSTS

14. Applicant proposed the following capital structure and associated costs:

Type	Capital Structure	Cost	Weighted Cost
Long Term Debt	52.4%	7.3%	3.8%
Preferred Stock	9.7%	8.1	.8
Common Equity	34.9	14.0	4.9%
Deferred Taxes	3.0	-	9.5%
	100%		

15. MCC proposed the following capital structure and associated costs:

Type	Capital Structure	Cost	Weighted Cost
Long Term Debt	57.4%	6.556%	3.765
Short Term Debt	2.3	6.335	.144
Preferred Stock	9.2	8.216	.758
Common Equity	31.1	12.5-12.75	3.88-3.96
	100%		8.55-8.63

16. A reconciliation of Applicant's proposed long term debt amount with the amount proposed by MCC is as follows:

	Outstanding	Cost
Applicants total long term debt:	$ 909,552,262	7.3%

add: 6% Series due November, 1977:	120,000	
6 3/8 Series due January 1, 2007 (Issued 1/1/77)	17,000,000	
Wyodak Guarantee at zero cost	139,573,000	
9% Bonds due November 1, 2007 (Issued 11/1/77)	100,000,000	
MCC total long term debt	$1,166,245,262	6.556%

17. Applicant accepted the costs associated with the $100,000,000 and $17,000,000 issuances in its Proposed Findings of Fact and Conclusions of Law. However, these amounts were not included in debt outstanding even though $120,000 expiring during the same time frame (November, 1977) was excluded from the capital structure (Ex. 2, Table 2-4).

A consistent stance must be taken with regard to cost of debt and debt to be included in the capital structure in this proceeding. Unless shown to be deficient, the embedded cost of debt and capital structure modified for known and measurable changes, rather than hypothetical amounts, should be used. These changes are found to be completely justified by the Commission where evidence is clear that the test year embedded capital requirements of a company are not representative of the immediate future capital needs of the utility (Tr. 219).

Wyodak Financing Included in Long Term Debt at Zero Cost

18. Applicant included no provision for the Wyodak financing in its capital structure. MCC proposes that $139,973,000 be included in the long term debt portion of the capital structure at a cost of $0.

On May 26, 1976, Pacific and Black Hills Power & Light Company entered into an agreement with Wyodak Construction Company, Inc. providing for the interim financing of $215,000,000 of the cost of a new generating plant in Wyoming. Fifteen lenders made funds available to Wyodak Construction Company, Inc. in amounts ranging from $2,500,000 to $35,000,000 for this purpose. The transaction was approved by the Federal Power Commission and regulatory commissions in Montana, Wyoming, Oregon, Washington and Idaho. The plant is now under construction and will be completed sometime during 1978. Applicant intends to consummate a sale and lease of the Wyodak plant during 1978, the purchaser leasing the plant to the Applicant and Black Hills Power.

The contentions of the parties on this issue have been discussed at some length, both in the testimony and briefs. Several reasons for inclusion of the Wyodak financing are:

a. Applicant has guaranteed to repurchase the Wyodak project and to guarantee the payment of principal and interest on the interim notes, and has an unconditional obligation to assume all of Wyodak Construction Company's obligations under the interim notes (Ex. 11A, p. 2).

b. Applicant will be reimbursed for interest associated with Wyodak as it is being capitalized (Tr. 272).

c. The Wyodak financing's embedded cost rate to Applicant is currently zero because it is not presently paying any interest on its obligation (Ex. E, p. 2).

Several reasons for not including the project are:

a. Applicant's guarantee of Wyodak effectively amounts to guaranteeing that a market will exist for Wyodak's output when it is completed in 1978 (Ex. 11A, p. 6).

b. Contractual obligations other than those connected with repayment of funds should not be included in the capital structure.

c. If Wyodak financing is to be included in the capital structure, a representative cost should also be imputed (Ex. 11, p. 5).

d. The present Wyodak arrangement is temporary, and Applicant's obligations will be clarified in 1978 (Ex. 11A, p. 2).

19. The Commission accepts the arguments against including Wyodak financing in the capital structure at zero cost for the reasons stated. If the amount of the guarantee's obligation is to be imputed to the guarantor, the costs associated with the obligation should also be imputed to the guarantor. However, due to the temporary and contingent nature of the Wyodak project, none of the following adjustments shall be proformed into this proceeding: Rental or lease expenses and their associated tax effects (in the event the facility was leased from a third party);

depreciation and interest expenses and associated tax effects; rate base inclusion of the facility and the resultant revenue and its tax effects; property tax effects; cost of capital and alteration of the capital structure (in the event the applicant was to assume the assets and liabilities associated with the Wyodak project).

In the event Wyodak is sold to a third party who can utilize investment tax credits associated with the project, and lease costs reflect this savings, the ratepayers will benefit, as Applicant has expressed concern about its ability to utilize the investment tax credit associated with the Wyodak project (Tr. p. 2). The Commission, of course, will be attentive to any such lease costs and their justifications. Applicant should not be penalized in this effort by including the guarantees obligations in its capital structure at zero cost.

20. The Commission accepts the following long term debt amounts and associated costs:

	Outstanding	Cost
Applicants total long term debt	$ 909,552,262	
6 3/8 Series due January 1, 2007 (Issued 1/1/77)	17,000,000	
9% Series due November 1, 2007 (Issued 11/1/77)	100,000,000	
	$1,026,672,262	7.447%

Short Term Debt

21. Applicant includes no short term debt in its capital structure. MCC includes $46,083,000 of short term debt and its associated costs in its capital structure.

Where it is clear that short term debt is a continuing form of financing, it is appropriately included in the determination of a fair rate of return. Applicant has used short term debt in the past and will make use of it in the future (Ex. 2A, p. 5).

Short term debt may vary widely over a short period of time. Therefore in computing short term debt it is appropriate to use amounts determined from an average of several periods (Ex. B, p. 4).

2. The Commission accepts the following short term debt amount and associated costs:

	Outstanding	Cost
Short term debt	$46,083,000	6.335%

Preferred Stock

23. The cost of preferred stock was determined by the Applicant to be 8.1%. MCC incorporated a more recent preferred stock issue (May, 1977) and calculated a cost for preferred stock of 8.216%. To be consistent with the costs allowed with respect to long term debt, the latter preferred stock issuance is accepted.

24. The Commission accepts the following preferred stock amounts and associated costs:

	Outstanding	Cost
Preferred Stock	$187,236,000	8.216%

Equity

25. Applicant uses the following methodologies in arriving at a return on equity of 14%:

a. Application of discounted cash flow (DCF) techniques to Applicant's financial data. Result: 13.18%-14.26%.

b. Review of equity returns allowed utilities with similar 1971-1975 compound growth in dividends per share plus February 22, 1977 dividend yields as reported by C. A. Turner and Associates, Inc. and application of DCF techniques to the above. Result: 13.49% and 13.83%.

c. At the revenue level sought by Applicant (which is less than the fair return it claims), the effective return on equity is 10.66%.

26. MCC uses the following methodologies in arriving at a return on equity of 12.5%-12.75%:

a. Application of DCF techniques to Applicant's equity. Result: 12.48%.

b. Application of DCF techniques to electric utilities that have a Baa Moody's bond rating (the same as Applicant's) and beta coefficients between .6 and .8 (Applicants is .7). Result: 11.98%, based on 1976 average dividend yields, and 13.10% based on 1974-1976 average dividend yields.

c. Application of DCF techniques to regulated and non-regulated companies that have the same beta coefficients as does Applicant. Result: 12.26%, based on 1976 average dividend yields and 13.03% based on 1974-1976 average dividend yields.

d. Use of a Capital Asset Pricing Model which uses as a base a riskless security (long term government bonds) and a risk premium based on judgment in this case. Result: 12.84%.

27. The Commission accepts the methodology sponsored by MCC as fundamentally sound. Not only was the DCF methodology applied to comparable electric utilities (which resulted in an 11.98% return on equity for 1976), but riskier, non-regulated firms were included in his analysis. This analysis was not used merely for comparison purposes, but was given considerable weight in the final average return (Ex. B, Sch. 25).

Comparable companies were chosen by MCC by using comparable beta coefficients, a measure of market price variability. All aspects of a company's risk are depicted in the market price of its stock, and, since the beta is based on the market price of stock, all critical factors are considered in the development of beta coefficients (Tr. p. 356).

Data used in Witness Fitzpatrick's DCF computations was the most recently available information at the time testimony was completed in November, 1977, two months prior to the hearing. This is certainly reasonable and acceptable to the Commission.

28. A rate of return on equity of 12.00% is deemed appropriate rather than the lower end of the range espoused by MCC (12.5%) for the following reasons:

a. MCC calculated an 11.98% return on equity based on DCF computations of comparable electric utilities for 1976 (Ex. B, Sch 25). This meets the criteria expressed in the case of Bluefield Water Works & Improvement Co. v. P.S.C. of W. Vir. 262 U.S. 679 that returns should be equal to those of comparable companies facing comparable risks.

b. The low end of the range stated by Witness Fitzpatrick, namely 12.5%, is too high due to the elimination in this order of the Wyodak financing from his capital structure. It was stated that the cost of equity recommendation was higher due to Wyodak because of the increased financial risk (i.e. the higher the percentage of debt in a capital structure, the more highly leveraged or riskier it becomes) (Tr. p. 261, 265). The elimination of Wyodak eliminates this risk component and, therefore, lowers the cost associated with equity.

c. Witness Fitzpatrick stated that the coal operations of Applicant's subsidiaries increases the risk of Applicant (Tr. p. 242). Witness Geiger, however, stated that the existence of an assured fuel supply in the form of coal is a factor minimizing utility risk (Tr. p. 69). The Commission agrees with the latter statement, since Applicant is deeply involved in coal-fired generation of electricity, and considers it a dampening factor to the 12.5% return on equity factor advanced by Witness Fitzpatrick.

Investment in Subsidiaries

29. Applicant has made no adjustments to eliminate investments in subsidiaries from capital structure. MCC reduced common equity outstanding by $66,037,000 to eliminate that portion of common equity associated with investment in subsidiaries.

To achieve a proper matching between assets, liabilities and owners equity the above amount must be eliminated from the capital structure. Just as investment in subsidiaries is not allowed in rate base, neither should it be allowed in the capital structure. To do so would allow Applicant to earn a revenue requirement through the fair rate of return on capital associated with non-utility assets (Tr. p. 243). In this instance, pursuant to the response to MCC Data Request No. 8, the entire subsidiary investment is associated with common equity and is therefore eliminated from that capital component.

30. The Commission finds the following common equity amount and associated costs:

	Outstanding	Cost
Common Equity	$630,755,000	12%

Rate of Return

31. Based on the findings for the cost of long term debt, short term debt, preferred stock and common equity, the following capital structure and costs are determined appropriate:

Type	Capital Structure	Cost	Weighted Cost
Long Term Debt	54.2998%	7.447%	4.044%
Short Term Debt	2.4373	6.335	.1544
Preferred Equity	9.9028	8.216	.8136
Common Equity	33.3601	12.00	4.00
	100%		9.012%

PART C

RATE BASE

32. The following rate base proposals were submitted. The final column is the rate base approved by the Commission.

1976 Test Year
(000)

Average Rate Base	Applicant Rate Base	Adj.	Adj. For Consumer Counsel Rate of Return	Consumer Counsel Rate Base	Adj. For Approved Rate of Return	Approved Rate Base
Net Plant in Service	41,375	-	-	41,375	-	41,375
Plant Held for Future Use	116	-	-	116	-	116
Nuclear Fuel	21	-	-	21	-	21
Cust. Advances for Const.	(128)	-	-	(128)	-	(128)
Materials & Supplies	618	-	-	618	-	618
Working Cash	313	(313)	-	-	-	-
Misc. Electric Surveys	424	(424)	-	-	-	-
CWIP	1,983	(1,983)	-	-	-	-
Cust. Contributed Capital	-	(1,207)	146	(1,061)	(16)	(1,077)
Total	44,722			40,941		40,925

CWIP/AFUDC Adjustment

33. Applicant included $1,983,000 of construction work in progress (CWIP) in its proposed rate base and credited operating income with Allowance for Funds Used During Construction (AFUDC) of $134,000. MCC proposes reversal of these adjustments.

In essence, these adjustments allow Applicant to earn a return on CWIP presently rather than when it is placed in service. Allowing CWIP in the rate base results in charging the present class of ratepayers twice for an item not used to serve them. The stockholders are compensated currently for the business risk associated with constructing new facilities in the rate of return on equity. They are further compensated in the future, when CWIP is placed in service, through the AFUDC. The compensation referred to in these instances is increased cash flow (Tr. p. 194, lines 16-24, p. 195, lines 1-17).

The current ratepayer supports a reduced level of CWIP when Applicants adjustments are reversed. The support emanates from the fact that the fair or overall rate of return is based on the embedded cost of all capital, including those recent high cost issuances that are used in financing CWIP (Tr. p. 193, lines 5-7).

In view of these considerations, the Commission rejects the inclusion of $1,983,000 in rate base and $134,000 in operating income, and excludes CWIP from rate base.

Miscellaneous Electric Surveys, Investigations & Research

34. Applicant's proposed rate base included $424,000 for miscellaneous electric surveys, investigations and research. The rate base proposed by the MCC eliminates this amount.

This rate base category includes amounts Applicant has expended to evaluate potential sites for projects required to meet the load growth of its electric customers. Also included are miscellaneous deferred debits, such as the unamortized cost of various abandoned projects, the largest of which is the High Mountain Sheep Project (Tr. p. 123). A portion of these deferred debits is amortized each year and included as an expense in this proceeding (Tr. p. 124). To allow these deferred debits or the surveys, investigations and research in rate base would result in double earnings occurring to the stockholders.

The stockholders are compensated for these items in the return on common equity, as they quantify one of the components of business risk (namely that of management determination as to which ventures are to be undertaken by the utility and management ability to transform these ventures into viable and contributing components of the enterprise).

Witness Hess urges on page 9 of Exhibit A that the primary reason for excluding these items is that they are not related to rendering service during the test year. The Commission concurs with this reasoning, and therefore rejects the inclusion of $424,000 in rate base.

Working Capital

35. Included in the Applicant's rate base is $313,000 for working cash. The MCC rate base does not include an allowance for working capital.

The Applicant's working cash adjustment is computed using the Federal Power Commission (FPC) "rule of thumb" approach (Tr. p. 209), which is 12.5% of operation and maintenance expenses, excluding fuel, purchased power, wheeling costs, and uncollectibles. This formula translates into a 45 day lag between payment of expenses and receipt of revenues.

It has become well established in regulatory law that tax accruals are available to meet a utility's working capital needs (Tr. p. 224). During the period between the accrual of the various taxes and the dates when they must be paid, Applicant has the use of this money, interest free. Other items are prepaid. Essentially then, some amounts are prepaid and some are postpaid.

A demonstration should be made that the working cash requested is indicative of Applicants needs, either through a lead-lag study or by a matching of Applicant's working capital needs with the rationale and working cash requirements which prompted the FPC 45 day rule of thumb.

The applicant presents no such assurances in this proceeding, and therefore, the Commission does not accept the working cash component in the rate base.

Tax Deferrals

36. Applicant treated tax deferrals as a zero-cost component of its capital structure. MCC advocated an alternate approach of deducting deferrals from rate base. Because deferrals are used to acquire assets, the Commission finds that the approach which treats them in conjunction with rate base at zero-cost is more logical.

PART D

REVENUE AND EXPENSES

37. The following income and expense proposals were submitted. The final column contains the revenue and expense amounts approved by the Commission:

December 31, 1976
(000)

		Adj. for	Consumer

	Applicant Revenue and Expenses	Adj.	Consumer Counsel Rate of Return	Counsel Revenue and Expenses	Adj. for Approved Rate of Return	Approved Revenues and Expenses
Operating Revenues	$11,287	(134)	(872)	$10,281	228	$10,509
Operating Rev.				$ 4,473		
Deductions:	4,475	-	(2)	1,358	-	$ 4,473
Operating Expenses	1,358	-	-	841	-	1,358
Dept. & Amortization	902	(3)	(58)	42	14	855
Taxes except Fed. Inc.	415	(334)	(39)	113	10	52
Federal Income Taxes	113	-	-		-	113
Deferred Income Taxes						
Prior Years Deferred	(62)	-	-	(62)	-	(62)
Income Taxes	416	315	(348)	383	88	417
Invest. Tax Cr.-Deferred	(53)	(386)	56	(383)	(56)	(439)
Invest. Tax Cr.-Restored						
Total Deductions	$ 7,564			$ 6,765		$ 6,821
Net Operating Revenues	$ 3,723			$ 3,516		$ 3,688

38. The test-period revenues should be increased to include the full annual impact of Order No. 4243B issued in Docket No. 6289, Applicant's last Montana rate case. Further, test period operating revenues should be increased to reflect normalization due to the Company's 40-year water study and modification of Applicant's contract with Montana Light and Power.

The Commission accepts the above-mentioned revenue adjustments.

39. Test-period operating expenses must be adjusted to reflect the following known and measurable changes, none of which are contested:

(a) BPA wheeling rate increase;

(b) Normalization of general wage expense attributable to wage increases granted during the test year;

(c) Increased contributions and membership fees paid to the Electric Power Research Institute;

(d) Normal regulatory commission expense;

(e) An increase in uncollectible accounts due to rate adjustments;

(f) Postage expense reduction reflecting a pre-sort discount;

(g) Adjustment in depreciation accruals in accordance with a depreciation study prepared by the Gilbert Associates, Inc., consulting firm for Applicant;

(h) Increased FICA taxes effective January 1, 1977;

(i) Property taxes associated with adjustments to rate base;

(j) Increased expense associated with new plant reflecting its availability during the entire test-year.

The Commission accepts the above-mentioned adjustments to operating expenses.

CWIP Interest Expense

40. Applicant eliminates $106,000 in interest expense from the calculation of state and federal income taxes. The interest expense as adjusted approximates Applicant's rate base less CWIP times Applicant's weighted debt cost. MCC uses this same calculation with the exception that CWIP is added to its proposed rate base (Ex. A, p. 11). Essentially, Applicant eliminates CWIP associated interest from the tax calculation on the premise that the ratepayer does not support CWIP (Ex. 4B, p. 5). The MCC includes CWIP-associated interest in the tax calculation on the premise that present ratepayers should be charged only those income taxes that will be paid (Ex. A, p. 11).

Proceeding on the assumptions that: (1) CWIP is not included in rate base and AFUDC is not credited to income, and; (2) some class of ratepayers should receive the tax advantage associated with CWIP interest expense (since they pay it) (Tr. p. 199), and; (3) A net of tax AFUDC rate is used, the CWIP interest should not be utilized in the tax calculation. To do so would give present ratepayers the advantage of lower taxes and future ratepayers the advantage of the interest expense through lower depreciation rates when the property to which the net of tax AFUDC rate has been applied is placed in service. In essence, both present and future ratepayers would receive the advantage of the same interest expense.

However, no assurance was received in this proceeding that a net of tax AFUDC rate has been used, i.e. no assurance was received that future ratepayers will receive the advantage of the CWIP interest expense (Tr. p. 1-99). Therefore, the Commission has no choice but to give present ratepayers the advantage of the CWIP interest expense in the tax calculations. MCC methodology which espouses use of the formula of rate base plus CWIP times the embedded cost of debt is accepted by the Commission for tax purposes.

ITC Flow-Through

41. Applicant restores to income $53,000 of investment tax credit (ITC). MCC restores to income all ITC deferred up to $439,000; which constitutes 50% of the pro forma investment tax credits generated during the test year and allocated to the State of Montana. Applicant elected to utilize all the ITC generated each year (up to legal limits) for tax purposes. For book purposes, however, the appropriate ITC is deferred and amortized over five year periods for those related to mass property additions and over 10 year periods for those related to major additions. This "smoothing" approach has not been particularly effective, however, because of Applicant's inability to utilize some of the ITC generated (Tr. p. 206). MCC reasons that ratepayers should be given the advantage of the ITC flow-through and that Applicant should not be permitted to make up for low earnings in the past by avoidance of its responsibility to flow through ITC in the future (Tr. p. 207). The Commission agrees with this reasoning and therefore accepts the methodology advanced by the MCC.

ITC Percentage

42. Applicant applies a 50% investment tax credit (ITC) rate to the total Federal tax liability. The MCC uses a 90% ITC rate.

The Tax Reduction Act of 1975 provides that ITC's can be taken for up to 100% of the pre-credit liability for the years 1975 and 1976, and that the limitation be reduced 10% annually for each of the years 1977 through 1980; so that the credit in effect for years 1981 and after is 50% (Ex. A, p. 11, 12).

The ITC applied by Applicant is that which will become effective in 1981, while the MCC applies the ITC effective for 1977. Consistency with the test year approach, which provides a snapshot of a utility's financial health as of a particular point in time, demands the use of an ITC percent as of 1976 or shortly thereafter (Tr. p. 219).

The Commission accepts the ITC rate advanced by MCC.

PART E

REVENUE REQUIREMENT

43. The Commission finds that the additional annual revenue required in Applicant's Montana electric operations is $1,819,000 as follows:

Rate Base, as Approved	$40,925,000
Overall Rate of Return, as Approved	9.012%
Net Operating Revenues	$ 3,688,000
Add: Operating Revenue Deductions, as Approved	6,821,000
Gross Operating Revenues	$10,509,000
Less: Applicant Gross Operating Revenues at Present Rates	8,690,000
Additional Annual Gross Operating Revenue Granted Applicant	$ 1,819,000

PART F

RATE STRUCTURE

44. Applicant proposed that increased rates in this case be largely implemented in the form of a uniform cents per kilowatt-hour increase. Absent a reliable cost of service study, the proposal was based upon the Company's conclusion that its need for increased revenues in Montana has been, and will continue to be, largely associated with the capital and operating costs associated with producing kilowatt-hours (Ex. 5A-4). This approach is consistent with the Commission's views expressed in the 1976 Pacific rate order in Docket 6289, and is accepted.

CONCLUSIONS OF LAW

1. The rate base determined in Finding of Fact No. 33 reflects the original cost depreciated value of Applicant's electric plant allocated to Montana. These values comply with the requirement of R.C.M. 1947, 70-106, that the value placed upon a utility's property for rate making purposes "shall not exceed the original cost of the property."

2. R.C.M. 1947, 70-106, states in part that "The Commission is not bound to accept or use any particular value in determining rates...." The Commission believes that utilizing original cost depreciated values as they reflect Applicant's present net investment in its property is within the discretion granted the Commission and is proper.

3. Average rate base is an appropriate means of measuring the value of Applicant's properties at risk during the test period. In addition, the use of average rate base values better matches test year revenues and expenses to the properties which produce them than do end-of-test-year values.

4. The Commission's rejection of a working capital allowance is proper as Applicant failed to show that such an allowance is needed for it to meet its obligations before cash from ratepayers is available for this purpose.

5. The rate of return allowed in this Order meets the constitutional requirement that a public utility's return must be "commensurate with the returns on investments in other enterprises having corresponding risks and sufficient to insure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." Federal Power Commission v. Hope Natural Gas Company 320 U.S. 591, 603 (1944).

6. In the absence of demonstrably valid allocated cost of service studies, which both reflect actual Montana load information and employ supportable cost allocation formulae, the uniform cents per kilowatt-hour increase and other rate schedule amendments authorized herein are justified.

7. The rates and charges authorized herein are just and reasonable.

8. The rate structures authorized herein are non-discriminatory.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Pacific Power & Light Company shall file rate schedules which reflect an annual revenue increase of $1,819,000 for Montana electric service, based on the test period ending December 31, 1976.

2. The increased electric revenues authorized herein shall be distributed to Applicant's classes of service on a uniform cents per kilowatt-hour basis.

3. Applicant shall file revised schedules incorporating the changes in its rate schedules and service regulations approved herein. These schedules shall become effective for service rendered after approval of said schedules.

4. All motions and objections not ruled upon at the hearing are denied.

DONE IN OPEN SESSION at a meeting of the Montana Public Service Commission held April 3, 1978, by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Gordon E. Bollinger, Chairman

P. J. Gilfeather, Commissioner

Thomas J. Schneider, Commissioner

James R. Shea, Commissioner

George Turman, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTICE: You are entitled to judicial review of this Order. Judicial review may be obtained by filing within thirty (30) days from the service of this Order a petition for review pursuant to Section 82-4216, RCM 1947.